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SUBJECT: REQUEST FOR GUIDANCE: BORROWING TO FUND IAEA
INFRASTRUCTURE PROJECTS

Classified By: Ambassador Greg Schulte for reasons 1.4 b/d

¶1. (U) This is a request for guidance. Please see paragraph ¶12.

¶2. (U) Summary: Member States recognize the IAEA's infrastructure needs, but many are under instructions to reject the budgetary increases that would resolve them. As budget negotiations intensify, Canada, France, Germany, the UK and others increasingly portray the idea of "borrowing" as a desirable option, if not a panacea. G-77 representatives appear to be warming to the idea of borrowing, though there are many different interpretations of the term. The question of how to fund the IAEA's infrastructure upgrades is rapidly become a focal point of budget discussions and may be raised during upcoming meetings of the Board of Governors. Mission requests guidance on the U.S. position vis-a-vis borrowing and its different forms. End Summary.

¶3. (SBU) Many sources both inside and outside the IAEA point to the organization's decaying infrastructure, particularly with regards to the IAEA's Safeguards Analytical Laboratory at Seibersdorf (SAL). SAL's decline threatens the IAEA's ability to analyze nuclear material samples and provide for the safety of SAL employees and the surrounding community. The IAEA also faces acute infrastructure challenges in security and IT. It also faces new capital investment needs that include major safeguards implementation projects in Japan and at Chernobyl. Despite the deep divisions between Member States that afflict ongoing budget negotiations for the 2010-2011 biennium, most Member States agree that infrastructure improvements, including SAL, constitute a budgetary priority. The IAEA has put forward three budget proposals over the past six months, all of which envision large increases to fund key infrastructure projects through the financing of a Major Capital Investment Fund (MCIF). The latest budget proposal, released June 5, features a 2.9 percent increase in the regular budget for the MCIF in 2010, bringing it to 14 million Euros.

¶4. (U) Despite the importance of infrastructure upgrades, many OECD Member States are under instructions to reject a budget increase of any kind. In their zeal to identify alternatives to a budget increase, several European states have joined Canada in reiterating their request that the Secretariat consider borrowing as a way to fund the MCIF. The idea gained momentum among OECD and, more recently, among G-77 Member States, despite wildly differing interpretations of the term "borrowing." The most fundamental difference centers on the source of the funds. Some Member States would like the IAEA to turn to a national bank, host country

Austria, or other major donor to seek funds ("external borrowing"), while others would like the IAEA to borrow from its own cash reserves ("internal borrowing").

Internal Borrowing

¶15. (SBU) Many OECD states, France in particular, have pointed to the steadily accruing reserves in the account of the Technical Cooperation Fund - over 80 million dollars. The cash build-up is a result of the Technical Cooperation Department's inability to make disbursements and implement projects in a timely manner (a problem which has made TC a longstanding target of criticism by donor states). Since the money is, as French diplomats say, "just sitting in a bank account," it makes eminent sense that the IAEA put it to better use toward funding key investments. Budget and Finance Director Gary Eidet views internal borrowing as a logical solution to the IAEA's infrastructure problems, and suggests that on the order of 10-15M USD could be borrowed without affecting TC program implementation.

¶16. (C) In this case logic is far removed from reality, and the G-77 would likely prevent any attempt to put TCF funds to good use. Technical cooperation and the funding of technical cooperation is the most important issue to G-77 Member States, and "reliable and assured TC funding" is a mantra included in any standard G-77 statement. As Deputy Director General David Waller rhetorically asked Msnoff, "Can you imagine what would happen if we used technical cooperation money to fund safeguards?" (The unspoken answer: G-77 hue and cry, followed by a confrontational Board decision.)

¶17. (SBU) Unfortunately, there may be no other pot of money readily available for internal borrowing. Voluntary contributions are generally earmarked for particular projects and cannot be "borrowed" for another purpose without the consent of the donor. Programs funded out of the Regular Budget are not potential resources, because the Director General is not authorized to transfer money from one Major Program to another. In the end, the only large pool of non-earmarked, voluntary contributions is the TCF, yet the TCF is politically off limits. In fact, any attempt to "raid" the TCF would likely to lead to counter calls by the G-77 for major donors to allow borrowing from other (earmarked) pots of money, such as the Nuclear Security Fund.

External Borrowing

¶18. (SBU) An even more popular solution to the investments issue is a low or interest-free loan from the host country (Austria) or other major donor. The experience of UNESCO is offered up as an example of an organization that obtained a zero interest loan from its host country France to refurbish its headquarters (Mission has not confirmed these details). Swiss counselor Giancarlo Kessler confirmed that both the WHO and the WTO secured 50-year, interest-free loans from a Swiss government agency in Geneva. In meetings of the Geneva Group (composed of the sixteen top contributors to the UN), participants have increasingly placed the idea of an "interest free loan from Austria" alongside their calls for a zero growth budget. Recently, G-77 representatives have also signaled their cautious support for external borrowing.

¶19. (C) Austrian Mission Counselor Stefan Heisler was unhappy to hear that other Member States were playing fast and loose with Austria's generosity. Heisler said that no one had approached his mission about such a deal, and that the Austrian government would be disinclined to volunteer funds on such terms. Heisler described SAL as a laboratory that analyzes samples from all over the world, which made it a shared Member State responsibility. Heisler said that Austria had been "a generous host country," and that no one had raised the subject of a loan in EU meetings because "they wouldn't dare."

¶10. (C) Romanian Second Secretary Dan Necalaescu, who is deeply involved in budget negotiations, dismissed Heisler's reaction as overblown. According to Necalaescu, the Romanian and Austrian ambassadors met several times on budget issues and reached an understanding that "in the end, something will be done" for the IAEA. Necalaescu did not clarify what that "something" might be - whether infrastructure help in the form of land, buildings and perimeter fences, or hard cash in the form of an interest-free loan. With respect to SAL, the Austrian Government would likely find it easier to provide in kind assistance (concessionary use of land, site preparations, security, road and utility upgrades) that would serve both the IAEA labs and the Austria Research Center at Seibersdorf. The internal Austrian consideration of allowing use of land at the Austria Research Center may come to fruition at a meeting of the ARC board on June 26.

¶11. (SBU) Nevertheless, both Necalescu and his ambassador, Cornel Feruta, are concerned by all the talk of borrowing. Feruta views external borrowing as more expensive for Member States, because they lose an opportunity to earn interest. He told Msnoff that Member States are looking to borrowing as if it were an easy way out, when in fact, borrowing money is a long-term commitment to a large debt that must be honored (in effect, a delayed budget increase). In his capacity as Board Vice Chair, Feruta held an open meeting for Member States on Friday, June 12 during which borrowing was discussed. In contradiction to interventions by the UK, France and Germany in support of borrowing, DDG Waller used the meeting to cast doubt on the wisdom of the approach.

Comment and Request for Guidance

¶12. (SBU) Internal borrowing is fiscally sensible but politically problematic. External borrowing is complex and expensive. Despite this, "borrowing" has become a buzz word

among budget hawks looking for ways to cut costs. With other Member States eagerly jumping on the borrowing bandwagon, the U.S. will also be expected to weigh in on the issue. Mission feels better solutions could be found by increasing the Regular Budget in the short term while identifying voluntary contributions over the long term. Post requests guidance on the U.S. position vis-a-vis borrowing and its alternatives to put forward as budget talks progress. The topic will develop in the context of ongoing budget talks this summer and may also come up during upcoming meetings of the Board of Governors.

SCHULTE